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Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF COUNSEL

In the Matter of )

CC Docket No. 96-112

Allocation of Costs Associated )

with Local Exchange Carrier )

Provision of Video Programming )

Services )

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BELL ATLANTIC COMMENTS

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## **Summary and Introduction**

This proceeding presents an opportunity for the Commission, for consumers and for the regulated local exchange carriers (“LECs”) to reap the benefits of the Commission’s move toward incentive regulation. Part 64 and associated cost allocation rules were an unfortunate necessity under rate of return regulation when prices were based on accounting costs. Now that most of the larger LECs have moved to “pure” price caps with no sharing component, the Commission safely can eliminate this burdensome requirement.

In this Notice, the Commission recognizes that any division of common costs inherently must be arbitrary. Nonetheless, the Commission has established complex and burdensome procedures for the division of various costs -- not only between regulated and non-regulated, but between jurisdictions and price cap categories. All of these requirements are unnecessary in a world of pure price caps. Once regulated prices no longer depend on individual company accounting costs, cost regulation serves no discernible purpose.

Price cap regulation not only makes allocation of the loop plant irrelevant, it provides a mechanism for customers to benefit fully from any efficiencies associated with new plant. As a result, any exogenous adjustment to the price caps to account for these efficiencies a second time unfairly penalizes LECs and thereby discourages deployment of new plant. Such an adjustment makes no sense in any event because there is no shared nonregulated investment in regulated costs today, so there are no costs for an exogenous adjustment to remove.

Instead, the Commission should eliminate mandatory cost allocation requirements wherever pure price caps are in place. For those jurisdictions that are not in pure price caps, the Commission

should authorize an allocation factor that does not discourage new investment by over-allocating costs to nonregulated services.

Finally, any cost allocation rules adopted here should apply equally when a rate-regulated cable television company uses its cable facilities to provide competitive telephony service. It would unfairly bias the market if cable companies were spared this regulation despite the link between their costs and their authorized rates. To the extent the Commission believes that it must allocate costs to protect customers of regulated services, cable customers are no less worthy of protection.

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**BELL ATLANTIC<sup>1</sup> COMMENTS**

This proceeding presents an opportunity for the Commission, for consumers and for the regulated LECs to reap the benefits of the Commission's move toward incentive regulation. Part 64 and associated cost allocation rules were an unfortunate necessity under rate of return regulation when prices were based on accounting costs. Now that most of the larger LECs have moved to "pure" price caps with no sharing component, the Commission safely can eliminate this burdensome requirement.

**I. Cost Allocation Is Irrelevant Under Price Cap Regulation**

**A. Pure Price Cap Regulation Eliminates the Need for Cost Allocation**

The Commission's price cap rules set prices based on a national inflation index, not individual company accounting costs. For Bell Atlantic and most price cap LECs, there is no "sharing" or other cost-based remnant of rate of return regulation. Under this "pure" price cap

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<sup>1</sup> The Bell Atlantic telephone companies ("Bell Atlantic") are Bell Atlantic-Delaware, Inc.; Bell Atlantic-Maryland, Inc.; Bell Atlantic-New Jersey, Inc.; Bell Atlantic-Pennsylvania, Inc.; Bell Atlantic-Virginia, Inc.; Bell Atlantic-Washington, D.C., Inc.; and Bell Atlantic-West Virginia, Inc.

regulation, Bell Atlantic's accounting costs are irrelevant to its authorized prices for regulated services. Such regulation "reward[s] companies that become more productive and efficient, while ensuring that productivity and efficiency gains are shared with ratepayers."<sup>2</sup>

In addition to creating appropriate incentives, pure price caps eliminate the need for pervasive and complex cost allocation requirements. The allocation of costs between regulated and non-regulated services (Part 64), between jurisdictions (Part 36) and among access categories (Part 69) all created accounting data on which regulators set "cost-based" rates. With the end of rate of return regulation, the need for such data disappears.

Pure price caps eliminate the need for cost allocation requirements as a safeguard against cross-subsidy. Numerous economists have recognized that "[w]ith price caps, cost-shifting is no longer a possibility since prices cannot be affected by any manipulation of cost accounts."<sup>3</sup> In other words, as Professor Alfred Kahn has explained, a price cap regulated LEC "is no more able to cross-subsidize than an unregulated firm."<sup>4</sup> As a result, cost allocation serves no purpose either

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<sup>2</sup> ***Policy and Rules Concerning Rates for Dominant Carriers***, 5 FCC Rcd 6786, 6787 (1990) ("Price Cap Order").

<sup>3</sup> ***Bell Operating Company Provision of Out-of-Region Interstate, Interexchange Services***, CC Docket No. 96-21, Bell Atlantic Comments, Affidavit of Robert W. Crandall, ¶ 8 (filed Mar. 13, 1996).

<sup>4</sup> ***Price Cap Performance Review for Local Exchange Carriers***, CC Docket 94-1, Reply Comments of Bell Atlantic, Affidavit of Alfred E. Kahn, ¶ 27 (filed June 29, 1994).

as a base for prices or as a safeguard and should no longer be required for LECs that are regulated under the no-sharing option.<sup>5</sup>

While the Commission was already free to eliminate cost allocation rules for pure price cap companies, doing so is required by the new Telecommunications Act. The Act requires the Commission to forbear from regulation where, as here, the regulation is unnecessary to assure just and reasonable rates or to protect consumers, and the forbearance is consistent with the public interest.<sup>6</sup> Allowing incentive-based pure price cap regulation to replace burdensome and arbitrary cost allocations will encourage investment in new services and thereby “promote competitive market conditions” as also required by the Act.<sup>7</sup> Such forbearance, therefore, is consistent with the public interest. As the Commission’s chief economist has recognized, telecommunications pricing is a “mess” because costs cannot be allocated to any particular service.<sup>8</sup> Dr. Farrell’s solution should be the Commission’s solution as well -- “stop trying to allocate costs.”<sup>9</sup>

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<sup>5</sup> Those LECs may still elect to use cost allocation rules to accommodate those local regulatory authorities that continue to rely on allocated costs as a basis for setting prices of regulated services. Even in that situation, however, Part 36 separations can be based on a simplified frozen allocation and Part 69 allocations are unnecessary. *See Improving Commission Processes*, PP Docket No. 96-17, Bell Atlantic Comments at 8-9 (filed Mar. 15, 1996).

<sup>6</sup> 47 U.S.C. § 160.

<sup>7</sup> 47 U.S.C. § 160(b).

<sup>8</sup> Communications Daily at 2 (May 22, 1996). Even spreading common costs to a group of services, as the Commission’s rules do, is impossible without arbitrary allocations.

<sup>9</sup> *Id.*

**B. Exogenous Costs Adjustments Based on New Allocations for Video are Inconsistent with Price Cap Regulation**

The Notice seeks comment on whether there should be an exogenous cost adjustment associated with “reallocation” of investment to video or other activities that are not regulated telephony services.<sup>10</sup> Such an adjustment makes no sense given that there is no shared nonregulated investment in regulated costs today. Thus, there are no costs for an exogenous adjustment to remove. Such an adjustment also is inconsistent with the Act and with price cap regulation. In particular, such an adjustment would be a step backwards toward the perverse incentives created by setting rates based on arbitrary cost allocations.

The Commission recognizes that a principal goal of the new Telecommunications Act is to provide for a “pro-competitive, de-regulatory national policy framework designed to accelerate rapidly private sector deployment of advanced telecommunications and information technologies and services.”<sup>11</sup> Consistent with this goal, price cap regulation is intended to create “incentives for LECs to invest efficiently in new facilities and to offer innovative services.”<sup>12</sup> To fulfill these goals, the Commission must avoid regulation that penalizes new investment.

An exogenous cost adjustment would create such penalties. The Commission has found that pure price caps “encourage infrastructure deployment” by allowing market rewards for companies that make successful investments.<sup>13</sup> Requiring an exogenous cost adjustment has the

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<sup>10</sup> ***Allocation of Costs Associated with Local Exchange Carrier Provision of Video Programming Services***, CC Docket No. 96-112, Notice of Proposed Rulemaking, ¶ 60 (rel. May 10, 1996) (“Notice”).

<sup>11</sup> Notice, ¶ 1 (quoting Conference Report, S. Rep. 104-230 at 113 (Feb. 1, 1996)).

<sup>12</sup> ***Price Cap Performance Review for Local Exchange Carriers***, 10 FCC Rcd 8961, 8965 (1995) (“Interim Price Cap Review Order”).

<sup>13</sup> Interim Price Cap Review Order at 9046.



opposite effect. It penalizes those companies that invest in shared facilities to provide new services, regardless of the benefits to consumers. The result is the same “perverse incentives” created by earnings-based regulation<sup>14</sup> -- any investment in facilities that would trigger an exogenous adjustment would be discouraged.

Moreover, a penalty for new investment imposed through an exogenous cost adjustment treats the cost allocation results with a presumption of precision which they simply do not have. The Commission recognizes that cost allocation of shared plant is “inevitably imperfect,” and so as a matter of policy “intentionally” errs on the side of allocating a “significant” part of common costs to nonregulated services.<sup>15</sup> For the Commission then to import these costs into the price cap formula, resuscitates cost allocation requirements and gives them new prominence.

The Commission’s goal of providing telephone ratepayers “some of the benefit of the economy of scope between telephony and competitive services”<sup>16</sup> is already accomplished through adjustments to the “x-factor” productivity offset. To the extent that new investment increases efficiency, such efficiency growth will be encompassed in the productivity offset, which acts to reduce interstate rates automatically. This provides individual companies the incentive to surpass the expected productivity growth through greater investment in efficiency enhancing technologies and by offering more new services.

Moreover, the LEC industry proposal for a permanent price cap plan assures that productivity growth is captured regularly and readily. LECs have proposed calculating the

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<sup>14</sup> *Id.* at 8970.

<sup>15</sup> Notice, ¶ 23.

<sup>16</sup> *Id.*

productivity offset based on a moving average of recent productivity growth, to be updated every year.<sup>17</sup> The Commission has recognized that basing the offset on a moving average means that “continuing gains in the average efficiency of the LECs” will be “passed through to their customers.”<sup>18</sup> Under the LEC proposal, the benefits that are passed through in the offset adjustment would not be limited to regulated telephony services. Because the productivity factor is based on total company inputs including all common-use plant and equipment, the productivity growth would reflect the benefits of video services as well. Thus, the Commission already has before it a regulatory system that provides interstate telephone ratepayers automatic rate reductions reflecting productivity gains from both regulated services and new nonregulated services that use common plant. Unlike an exogenous cost adjustment, this system provides an incentive in favor of new services, and does not penalize more efficient uses of the network. To require an exogenous adjustment in addition to that offset would double-count the same growth and penalize LECs’ efforts to increase productivity.

Even if an exogenous cost adjustment for costs assigned to nonregulated broadband services is otherwise appropriate, which it is not, it must be rejected because there is no regulated investment being used to provide nonregulated services and therefore no existing costs to remove. Commission rules allow for an exogenous cost adjustment for the “*reallocation* of

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<sup>17</sup> See *Price Cap Performance Review for Local Exchange Carriers*, CC Docket 94-1, Comments of Bell Atlantic on the Fourth Further Notice at 8-11 (filed Jan. 11, 1996)

<sup>18</sup> Interim Price Cap Review Order at 9047.

investment from regulated to nonregulated activities.”<sup>19</sup> But LECs will be constructing new shared facilities to provide traditional telephony and new broadband services.<sup>20</sup> Rather than reallocating existing investment, any new Part 64 rules would allocate this new investment between regulated and non-regulated services.<sup>21</sup> Since the nonregulated portion of such shared investment was never in regulated costs, there simply are no costs to remove. Indeed, if the Commission were to require such an adjustment, which it logically can not, it would first have to allow an exogenous cost *increase*, to put these costs into the regulated side, so that there would be the regulated costs to remove. Obviously there is no reason to require this type of useless regulatory pirouette.

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<sup>19</sup> 47 C.F.R. § 61.45(d)(1)(v) (emphasis added). This requirement was not intended to effect a general reallocation of assets by the Commission, but rather was put in place as a punitive measure to deter carriers from under-forecasting nonregulated usage. *See Separation of Costs of Regulated Telephone Service from Costs of Nonregulated Activities*, 3 FCC Rcd 6701, 6705.

<sup>20</sup> *See* Declaration of Kenneth Hoffman, ¶ 8, attached hereto as Exhibit A. One exception is ADSL technology, which makes use of the existing copper loop plant to provide broadband transport. No reallocation of costs is associated with ADSL, however. All costs of the ADSL equipment can be directly assigned to nonregulated services. The cost of the existing loop plant, which continues to provide regulated telephone service, is unchanged. Moreover, an ADSL video customer must purchase a telephony loop in order to receive the video service. That customer pays for the loop costs through the purchase of dialtone service. Any attempt to allocate additional costs to video requires the ADSL customer to pay a portion of the loop costs of other (non-ADSL) customers -- effectively cross-subsidizing the telephone service.

<sup>21</sup> New rules could also cover the very limited investment in existing video services -- the only shared facilities that exist today. That investment was incurred after the initialization of rates under price caps, and therefore no additional costs associated with these investments are reflected in current telephone rates.

## II. Telephone Loop Plant Costs Should Not Be Over-Allocated to Nonregulated Services

Although pure price cap regulation eliminates the need for arbitrary and burdensome cost allocation rules for most companies, some LECs will, in the near term, continue to require a method to separate non-regulated costs from the regulated rate-base.<sup>22</sup> The Commission correctly recognizes that the primary cost allocation issue raised by joint-use broadband networks is the allocation of joint loop plant.<sup>23</sup> The Commission is also correct to reject usage-based allocations that automatically shift costs to higher bandwidth services: “[D]ifferences in the usage characteristics of video programming services (and other advanced telecommunications services that are subject to competition) and voice-grade services” mean that usage based factors would “produce results inconsistent with the goals of the 1996 Act and [Commission] goals for Part 64.”<sup>24</sup> In addition, usage-based allocations would be inefficient and ineffective when applied to technology where the user can change its bandwidth requirements by preprocessing and compression at the originating end and by storage at the terminating end. Relying on a usage based-allocation could distort a consumer’s choice of technology and ultimately raise the cost of service<sup>25</sup> -- precisely the opposite result from the Commission’s stated goals.

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<sup>22</sup> The solution here should also be applicable when rate-regulated cable television companies use their cable facilities to provide competitive telephone service.

<sup>23</sup> Notice, ¶ 29.

<sup>24</sup> Notice, ¶ 33. *See also*, R. Pepper, “Through the Looking Glass: Integrated Broadband Networks, Regulatory Policies and Institutional Change,” Office of Plans and Policy Working Paper No. 24, 4 FCC Rcd 1306, 1313 (1988) (proxies of relative use between video and telephony yield “absurd” results).

<sup>25</sup> *See Application of the Bell Telephone Companies*, W-P-C 6966, Affidavit of William E. Taylor, ¶ 29, attached to Opposition of Bell Atlantic to Petitions to Deny (filed Aug. 11, 1994).

The Commission should similarly reject a mandatory fixed 50% allocation factor. While a fixed allocation factor has the benefit of simplicity and is not dependent on a specific technology, a 50% allocation factor allocates far in excess of a reasonable share and thereby suffers from the same deficiencies as unreasonable usage-based allocations.<sup>26</sup> As Dr. William Taylor has previously testified, a mandatory 50/50 allocation simply “has no reasoned basis.”<sup>27</sup>

Indeed, Bell Atlantic’s own experience with a joint use network in Dover Township, New Jersey suggests that an appropriate allocation of costs to non-regulated is 28% or lower. When Bell Atlantic calculated the proportion of directly assigned video and telephony costs in the shared plant, it derived an allocation factor of 28% to video.<sup>28</sup> When it calculated the cost of building a state-of-the-art voice system, however, it found that, other than the directly assigned video costs, there would be no cost savings associated with building such a network without video capability.<sup>29</sup> As a result, *any* allocation of common costs allows customers of regulated service to benefit from the economies of scope of a multi-use network.

Understandably, the Commission seeks to avoid mandating a technology-specific cost allocation methodology such as used in Dover. To achieve its goal, the Commission should allow companies the option of using a fixed allocation factor selected from a range established

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<sup>26</sup> The prices of non-regulated services are based on market rates with an incremental cost floor, not on arbitrary cost allocations, regardless of their reasonableness. Nevertheless, an over-allocation of costs can undermine the incentive to build modern broadband facilities in those jurisdictions where such allocations directly impact the prices for regulated services.

<sup>27</sup> *Amendment to the Bell Atlantic Telephone Companies Tariff FCC No. 10*, CC Docket No. 95-145, Affidavit of William E. Taylor, ¶ 11, Exhibit A to Bell Atlantic Direct Case (filed Oct. 26, 1995) (“Dover Direct Case”).

<sup>28</sup> Dover Direct Case at A-6.

<sup>29</sup> Dover Direct Case at B-6.

by the Commission. In creating such an option, however, the Commission should use the technology-specific allocation history created by Bell Atlantic and other providers of video dialtone service as a guide.<sup>30</sup> That history suggests a range of 25 to 30 percent.

Moreover, this allocation history is consistent with designing a network to provide both regulated and non-regulated services. First, incumbent LECs retain a universal service obligation that requires them to engineer the network to offer service to 100% of the homes and businesses in a serving area, regardless of competition. For video and other non-regulated services, the networks need only be engineered to accommodate expected market penetration -- a far lower number.<sup>31</sup> In addition, the ratio of cable television lines to telephone lines is roughly consistent with a 28% allocation.<sup>32</sup> Similarly, the relative revenue split between cable television and local telephony would produce a number (21%) slightly lower than Bell Atlantic's proposed range.<sup>33</sup> These figures all confirm the reasonableness of using a fixed allocation factor range of between 25% and 30% to reflect the relative weight of the non-regulated services, without overburdening those services with an unfair allocation.<sup>34</sup>

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<sup>30</sup> While the Commission correctly recognizes that modernized networks will have additional unregulated services beyond video, network modernization may also enable new regulated services as well. Given an absence of real data on these services, it is appropriate to use video as a proxy in order to set a fixed allocation factor range today.

<sup>31</sup> For example, a 35% penetration, such as projected for Dover, would indicate an allocation factor of 25.9% (video/video + telephony or 35/135).

<sup>32</sup> Comparing 59.7 million cable television lines to 141.1 million phone lines results in a factor of 29.7%. CATV Financial Databook at p. 7, line 6 (July, 1995); FCC Statistics of Common Carriers at 21 (1994-95 ed.).

<sup>33</sup> CATV industry revenues were \$23.9B compared to LEC revenues of 90.2B. Cablevision 1995 Bluebook at 20.

<sup>34</sup> Of course, the arbitrary nature of any fixed allocation factor underscores the importance of eliminating any cost allocation requirement under modern regulation.

As an alternative to a fixed allocation factor, the Commission seeks comment on a cost allocation ceiling for regulated service.<sup>35</sup> Such a methodology would fail to simplify the cost allocation process. Any ceiling must allow for increases in the regulated rate base caused by factors unrelated to the provision of non-regulated services. Such factors could include not only inflation,<sup>36</sup> but allowances for new lines and the potential for new regulated services. Each of these factors would require annual upward adjustments to the cap, resulting in a regulatory system more complex than existing allocation rules. In addition, any such allocation methodology would have to be based on actual loop costs, which in many instances are much higher than what is recovered under today's regulated prices. In total, such an approach creates more regulatory problems than it solves. If the Commission were to adopt such an approach, therefore it should be limited to a regulatory option at the discretion of the carrier. Moreover, carriers selecting such an option should be relieved of all cost allocation and reporting requirements.

### **III. Other Allocations Require Only Minimal Adjustment to Existing Part 64 Rules**

Because cost allocation requirements are unnecessary for companies under pure price caps, and because the number of pure price cap carriers is growing, the Commission should not undertake a wholesale overhaul of the Part 64 allocation rules to address the allocation of multi-use networks. Indeed, the current rules provide adequate guidance, except in a limited number of circumstances.

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<sup>35</sup> Notice, ¶ 36.

<sup>36</sup> *Id.*, n.49

Specifically, most interoffice fiber and central office plant can be directly attributed to regulated and nonregulated services, and the current rules allow for such attribution. For plant that cannot be so attributed, however, the Commission should remove the current usage forecast requirement.<sup>37</sup> Because these rules penalize forecasts that are too low, but do not allow for correction of forecasts that are too high,<sup>38</sup> the rules mandate an over-allocation to nonregulated services, creating a disincentive for investment in new nonregulated service. The Commission can avoid this disincentive and still protect ratepayers by allowing the plant and facilities to be allocated on a cost causative basis where possible and using the same allocation as loop plant when a cost causative allocation is not available.<sup>39</sup> Maintenance expense, which logically follows the plant investment, could then be allocated in the same proportion.

Moreover, there is no need to modify cost allocation rules to conform to the 1996 Act's requirements on pole and conduit imputation. Section 224 (g) of the Act is a pricing requirement -- i.e. pole owners must impute the third-party charges for poles into their own prices. The requirement says nothing about cost allocation rules. Under current practice, nonregulated affiliates already are required to pay a tariff or market rate to attach on the regulated company's pole.<sup>40</sup> Consistent with the current cost allocation rules, the pole attachment can continue to be a regulated cost, with the nonregulated service that shares the attachment required to pay a

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<sup>37</sup> 47 C.F.R. § 64.901(4).

<sup>38</sup> *Separation of Costs of Regulated Telephone Service from Costs of Nonregulated Activities*, 2 FCC Rcd 1298, 1320 (1987).

<sup>39</sup> Attached as Exhibit B is Bell Atlantic's proposed changes to Commission rules.

<sup>40</sup> See 47 C.F.R. § 32.27.



proportionate share of the tariffed or market price.<sup>41</sup> Such payment would be a revenue inflow to regulated services, and ensures that regulated ratepayers are fully protected.

#### **IV. The Allocation Of Spare Plant Should Follow The Allocation Of In-Use Plant.**

Special cost pools for spare outside plant facilities are not required to ensure that spare plant is appropriately allocated. Instead, spare plant should continue to be assigned to the same cost pools as related “in-use” equipment. This will automatically allocate spare common equipment between regulated and nonregulated in the same manner that related “in-use” equipment is allocated. That is, spares that are engineered in connection with regulated plant or equipment will be assigned to regulated; spares engineered in connection with nonregulated plant or equipment will be assigned to nonregulated. When equipment is shared between regulated and nonregulated services, the equipment, including the equipment’s spares will be assigned to common. Spare capacity is an important and normal part of plant engineering to ensure that Bell Atlantic can meet its obligations to provide service in a timely manner. As a result, whether planning for regulated services, unregulated services, or equipment to handle both, network engineers will include spare capacity in the plans. By assigning that spare capacity to the same cost pools as related “in-use” equipment the Commission can ensure that spare plant is allocated appropriately.

The Notice notes that spare capacity seems to be increasing and hypothesizes that such capacity was installed at the expense of regulated ratepayers, but will be used to provide

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<sup>41</sup> See 47 C.F.R. § 64.901(b).

unregulated services.<sup>42</sup> As the attached declaration of Kenneth Hoffman makes clear, the current amount of spare capacity is, in part, a function of the relative cost of fiber, the cost of labor to place it, and the changing cost of electronics to make it work. Spare capacity currently in Bell Atlantic's network was installed for telephony purposes under engineering guidelines whose purpose is to ensure the most cost effective design for the network.

In order to provide new services (and, in particular, video services) additional plant will have to be constructed and equipment installed. As noted above, that plant and equipment will be engineered to include spare capacity. As a result, assigning spare plant to the same cost pools as related "in-use" plant will ensure that nonregulated services are allocated an appropriate portion of spare plant in the future.

### CONCLUSION


For the foregoing reasons, the Commission should remove cost allocation burdens for companies under pure price caps, and make the other limited rule changes submitted as an attachment to these comments.

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<sup>42</sup> Notice, ¶¶ 52-53.

Respectfully submitted,

Edward D. Young, III  
Michael. E. Glover  
Of Counsel

A handwritten signature in dark ink, appearing to read "Leslie A. Vial", written over a horizontal line.

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**DECLARATION OF KENNETH D. HOFFMAN**

I, Kenneth D. Hoffman, declare as follows:

1. I am Vice President - Facilities Management for Bell Atlantic. I am responsible for the planning, design, and engineering of transport facilities in the outside plant network.
2. The purpose of my declaration is to discuss how Bell Atlantic plans and engineers its network, including the factors that Bell Atlantic considers in deciding to place fiber optic facilities. I will also discuss the need for spare capacity and the relationship of that spare plant to Bell Atlantic's current and planned network.
3. Bell Atlantic has been deploying fiber and new technology throughout the region in order to support the core telephone business. As of March 1996, Bell Atlantic had deployed 306,454,258 Km of copper wire and 3,490,874 Km of fiber. Thus, only about 1% of Bell Atlantic's network is fiber.
4. The spare fiber capacity in Bell Atlantic's network is largely in interoffice facilities and feeder routes. That fiber was placed pursuant to engineering guidelines whose purpose was to ensure the most cost effective design for the network. Any

efficient network design must include a prudent allowance for spare capacity. All of that fiber was placed to support Bell Atlantic's regulated services.

5. The decision to place fiber rather than copper is driven by a number of factors, including:

(a) The cost to maintain fiber is lower than the cost to maintain copper. Moreover, intelligent electronics (such as Next Generation Digital Loop Carrier) fed by fiber optic cables can "self-report" problems as they develop, and in many cases before they become service-affecting. Fiber optic rings, when equipped with SONET network elements, i.e., intelligent electronics, provide Automatic Protection Switching and are, therefore, self-healing. This precludes outages and lost service even when a fiber link is cut in half. Technicians can then be dispatched on a scheduled basis rather than in response to a trouble report, allowing more efficient deployment of personnel, reducing labor costs and improving customer satisfaction.

(b) Fiber cables are smaller than copper -- a copper cable supporting 4200 customers requires 4200 pairs; the same number of customers can be supported on four fiber strands. Restoration of service in the event of a cable cut is much quicker with fiber than with copper because there are only a small number of fibers to re-fuse and less time and labor are required. In addition, the use of smaller cables means Bell Atlantic needs to use less conduit structure, which is our most expensive type of plant.

(c) While there is some ability to expand the capacity of existing copper facilities, meeting the strict transmission requirements to condition copper cables to support digital speeds such as DS1 often is more costly than using or placing fiber facilities.

(d) Some services provided on fiber simply cannot be provided over copper.

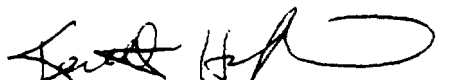
6. Once the decision to deploy fiber has been made, the amount of fiber that is placed depends on a number of factors. First, fiber cables come in predetermined sizes such as 12, 24, 36, 48, 72, 96, 144, or 432 fibers. If a particular location requires eighteen fibers, Bell Atlantic may place a twenty-four fiber cable, leaving six spare fibers. Moreover, the cost of increasing the number of fibers is relatively inexpensive when compared with the labor cost to later install an additional fiber cable, the cost of reinforcing duct runs, or the cost of higher speed electronics which would increase the capacity of the existing fiber. In engineering a particular area, therefore, Bell Atlantic would place fiber to support projected growth for a five- to ten-year period, to avoid the expense of sending crews out to place additional fiber just a few years after laying the first cable. Similarly, Bell Atlantic would have determined that the most cost effective way of engineering a particular job was to place extra fiber and lower speed electronics, rather than incur the higher cost of faster electronics. As the cost of the high speed electronics continues to drop, however, growth may be economically accommodated using the same number of fibers as originally placed.

7. Decisions referenced in the previous paragraphs were made with the goal of deploying a cost effective, trouble-free network. Bell Atlantic chose to place fiber, based on the circumstances existing at the time, to achieve lower costs and meet customer needs.

8. Bell Atlantic's current network has been built, and fiber placed, to provide for our existing services. Therefore, our existing interoffice and feeder fiber was designed and constructed based on economic decisions which support Bell Atlantic's core regulated telephony services. In order to offer video or other new nonregulated services over an integrated network, Bell Atlantic will have to construct additional plant and place new equipment. New investment for the integrated network will be shared -- supporting both regulated and nonregulated services.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct to the best of my knowledge and belief.

Executed on May 30, 1996

  
Kenneth Hoffman



**EXHIBIT B**